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News Release

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Brothers plead guilty to conspiracy to defraud the IRS

Two brothers from Morris, Minnesota, pleaded guilty today in federal court to devising a tax-evasion scheme that involved concealing income they and many of their employees received from their road construction business. Appearing before United States District Court Judge Patrick Schiltz in St. Paul, Joseph Edward Riley, 63, and John Thomas Riley, 60, pleaded guilty to one count of conspiracy to defraud the U.S. The defendants were indicted on April 15, 2009, and neither entered into a plea agreement with the government.

The indictment filed against them states that from July 5, 1996, through August 2003, the brothers conspired to defraud the U.S. by concealing income earned by Riley Bros. Companies, Inc., a holding company that owns 100 percent of Riley Bros. Construction as well as all or part of a number of other companies. The object of the conspiracy was to evade paying income taxes, Social Security taxes, Medicare taxes, and unemployment taxes to the federal government. The indictment states the brothers also were attempting to defraud the State of Minnesota by evading the payment of State taxes and facilitating fraudulent claims for unemployment benefits.

To further their scheme, the indictment alleges the defendants converted to their own benefit income for work and materials provided by Riley Bros. This was done primarily by cashing checks made payable to Riley Bros. Construction and not reporting the income on the company's books. The cash was then spent primarily by the defendants. Between 1999 and 2001, for example, Joseph Riley purchased a time-share condominium in Cancun, Mexico, and four motorcycles, totaling more than \$70,000. Also, from 1999 to 2002, the defendants used converted funds to provide employees with more than \$95,000 in cash. The cash paid to themselves or as bonuses to employees was never reported to the Internal Revenue Service or the Minnesota Department of Revenue.

Moreover, the indictment alleges the defendants arranged for Riley Bros. to pay employees for work performed while those employees were collecting unemployment benefits. Those

payments were disguised in order to facilitate the fraudulent unemployment claims as well as to evade taxes. In addition, between 1996 and 2003, the defendants caused Riley Bros. to pay more than \$79,000 in personal expenses while directing company bookkeepers to falsify records and disguise the payments as legitimate business expenses.

As a result of this conspiracy, more than \$500,000 in improperly reported money was paid to Joseph Riley, John Riley, and Riley Bros. employees by Riley Bros. Companies, Inc. For this crime, Joseph Riley and John Riley face a potential maximum penalty of five years in prison. Judge Schiltz will determine their sentences at a future date.

This case is the result of an investigation by the IRS-Criminal Investigation Division and the Minnesota Department of Revenue. It is being prosecuted by Assistant U.S. Attorney Michael L. Cheever.